

POWESHIEK COUNTY MENTAL HEALTH CENTER
(A non-profit organization)

AUDITED FINANCIAL STATEMENTS
JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Poweshiek County Mental Health Center
Grinnell, Iowa

We have audited the accompanying statement of financial position of the Poweshiek County Mental Health Center (a non-profit organization) as of June 30, 2011 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on the financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient audit evidence of net patient fees stated at \$679,888 in the accompanying statement of activities for the year ended June 30, 2011.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about the valuation of net patient fees, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Poweshiek County Mental Health Center as of June 30, 2011 and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Center will continue as a going concern. As discussed in note 12 to the financial statements, the Center has suffered significant reductions in patient fee revenues, contract service revenue and support revenue from Grinnell College. In addition, the Center has a net deficiency in net assets that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters also are described in note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Gegner Company PC

November 18, 2011

CPA

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POWESHIEK COUNTY MENTAL HEALTH CENTER
STATEMENT OF FINANCIAL POSITION
June 30, 2011

ASSETS

	<u>2011</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 49,712
Accounts receivable - patients (net of allowance for doubtful accounts of \$92,729)	136,123
Accounts receivable - funding sources	63,551
Cafeteria fund receivable	1,262
Prepaid insurance	11,237
Inventory (supplies)	<u>2,890</u>
TOTAL CURRENT ASSETS	<u>264,775</u>
 PROPERTY AND EQUIPMENT	
Land	9,344
Building	476,513
Leasehold improvements	25,638
Office equipment and furniture	<u>151,975</u>
TOTAL PROPERTY AND EQUIPMENT	<u>663,470</u>
Less accumulated depreciation	<u>(339,103)</u>
NET PROPERTY AND EQUIPMENT	<u>324,367</u>
 TOTAL ASSETS	 <u><u>\$ 589,142</u></u>

The accompanying notes to financial statements are an integral part of these financial statements.

POWESHIEK COUNTY MENTAL HEALTH CENTER
STATEMENT OF FINANCIAL POSITION
June 30, 2011

LIABILITIES AND NET ASSETS (DEFICIT)

	<u>2011</u>
CURRENT LIABILITIES	
Accounts payable	\$ 42,124
Credit card payable	3,505
Payroll taxes payable	132,958
Retirement payable	57,458
Gift fund payable	1,673
Accrued insurance	6,150
Accrued vacation	51,947
Deferred revenue	7,135
Current portion long-term liabilities	<u>11,397</u>
TOTAL CURRENT LIABILITIES	314,347
LONG-TERM LIABILITIES	
Note payable - Berkadia	76,626
Note payable - USDA	260,859
Less: current portion	<u>(11,397)</u>
TOTAL LONG-TERM LIABILITIES	<u>326,088</u>
TOTAL LIABILITIES	640,435
NET ASSETS (DEFICIT)	
Net assets (deficit) - unrestricted	(67,481)
Net assets - temporarily restricted	<u>16,188</u>
TOTAL NET ASSETS (DEFICIT)	<u>(51,293)</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u><u>\$ 589,142</u></u>

The accompanying notes to financial statements are an integral part of these financial statements.

**POWESHIEK COUNTY MENTAL HEALTH CENTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>2011</u>
REVENUES	
Support Revenues	
Poweshiek County	\$ 122,076
Clubhouse	119,646
Grants	85,554
Grinnell College	37,183
Contract services	41,596
Out of County	17,101
City of Grinnell	11,100
Fundraising	8,635
United Fund	5,720
Interest income	602
Total Support Revenues	<u>449,213</u>
Service Revenues	
Patient fees - net	<u>679,888</u>
TOTAL REVENUES	1,129,101
EXPENSES	
Salaries	821,619
Employee insurance	98,002
Medical billing service fees	70,631
Payroll taxes	68,050
Retirement	47,362
Contract services	42,437
Professional fees	27,586
Data system	25,748
Insurance	23,240
Depreciation	18,065
Loss due to embezzlement	17,910
Clubhouse expenses	16,439
Office supplies	15,486
Interest expense	14,932
ER protocall service	11,855
Maintenance	9,057
Lawsuit settlement	8,508
Utilities	8,038
Conference/Dues/Licenses	7,611
Telephone	7,013

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The accompanying notes to financial statements are an integral part of these financial statements.

**POWESHIEK COUNTY MENTAL HEALTH CENTER
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

(Continued)

	<u>2011</u>
Office expense	6,362
Advertising and recruitment	6,264
Medical/Educational	5,839
Miscellaneous	5,343
Software testing supplies	4,305
Bad debt expense	4,017
Penalties	3,843
Travel	3,238
Administrative meetings	2,280
Dues	2,095
Bank charges	1,808
Post doc position expenses	1,272
Van expense	<u>1,028</u>
TOTAL EXPENSES	<u>1,407,283</u>
EXCESS OF EXPENSES OVER REVENUES	(278,182)
NET ASSETS RELEASED FROM TEMPORARY RESTRICTION	<u>7,623</u>
(DECREASE) IN UNRESTRICTED NET ASSETS	(270,559)
(DECREASE) IN TEMPORARILY RESTRICTED ASSETS	<u>(7,623)</u>
INCREASE (DECREASE) IN NET ASSETS	(278,182)
NET ASSETS - BEGINNING OF YEAR	<u>226,889</u>
NET ASSETS (DEFICIT) - END OF YEAR	<u><u>\$ (51,293)</u></u>

The accompanying notes to financial statements are an integral part of these financial statements.

**POWESHIEK COUNTY MENTAL HEALTH CENTER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (278,182)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	18,065
(Increase) decrease in current assets:	
Accounts receivable - patients	(10,176)
Accounts receivable - funding sources	(3,526)
Prepaid insurance	2,331
Increase (decrease) in current liabilities:	
Accounts payable	40,933
Credit card payable	3,505
Accrued payroll taxes payable	132,958
Retirement payable	57,458
Cafeteria fund payable	1,273
Gift fund payable	384
Accrued insurance	6,150
Accrued vacation	(29,184)
Deferred revenue	<u>(7,865)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(65,876)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	<u>(3,505)</u>
NET CASH USED IN INVESTING ACTIVITIES	(3,505)
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayments of long-term debt	<u>(12,512)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(12,512)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(81,893)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>131,605</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 49,712</u></u>

(Continued on next page)

The accompanying notes to financial statements are an integral part of these financial statements.

**POWESHIEK COUNTY MENTAL HEALTH CENTER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

(Continued)

CASH PAID DURING THE YEAR FOR:	2011
Interest	<u>14,932</u>

The accompanying notes to financial statements are an integral part of these financial statements.

POWESHIEK COUNTY MENTAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – ORGANIZATION

The Poweshiek County Mental Health Center was incorporated in Iowa on April 15, 1971. The purpose of the Corporation is to provide mental health services including outpatient mental health care and preventive services, education and consultation to those in its catchment area. The principal office is located at 200 Fourth Avenue West, Grinnell, Iowa 50112.

Sources of revenue for the Center's services come from patient fees, insurance carriers, the government, county reimbursements, contracts with other agencies, grants and individual donations.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

A. Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

B. Cash and cash equivalents

The Center considers savings accounts and all other highly liquid investments to be cash equivalents.

C. Net patient service revenue

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

D. Property and Equipment

Property and equipment is stated at cost. Depreciation is computed by the straight-line method over the estimated useful lives of 3 to 40 years. No interest costs were capitalized since there were no qualifying purchases. Assets purchased under \$1,000 are charged directly to expense.

E. Compensated Absences

The Center employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Amounts representing the cost of compensated absences are recorded as a liability and have been computed based on rates of pay in effect at June 30, 2011.

POWESHIEK COUNTY MENTAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Donated services

The Chapter's board of directors and its officers serve without compensation. These services are not recorded in the financial statements and the effect on the financial statements is unknown.

G. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used.

H. Inventory

Inventory is stated at the lower of cost or market and consists of office supplies.

I. Subsequent Events

The Center has evaluated subsequent events through the date the financial statements were issued on November 18, 2011.

J. Advertising

Advertising costs are expensed as incurred. Recorded in the statement of activities for the year ended June 30, 2011 were advertising costs of \$865.

POWESHIEK COUNTY MENTAL HEALTH CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – NET PATIENT SERVICE REVENUE

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rate. A summary of the payment arrangements with major third-party payors follows:

Medicare – Services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on various factors. Costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audit thereof by the Medicare fiscal intermediary.

Medicaid – Services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audits thereof by the Medicaid fiscal intermediary.

The Center has also entered into payment agreements with certain commercial insurance carriers, HMOs and preferred provider organizations. The basis for payment to the Center under these agreements includes prospectively determined rates and discounts from established charges.

NOTE 4 – LONG-TERM DEBT

Long-term debt consists of the following at June 30:

	<u>2011</u>
Berkadia Commercial Mortgage - \$191,000 mortgage loan dated January 9, 1980 and due in monthly installments of \$938, including interest at 5% through January 2020. Collateralized by the office building.	\$76,626
USDA Rural Development - \$284,000 mortgage loan dated September 18, 2002 and due in monthly installments of \$1,349, including interest at 4.75% through 2042. Collateralized by the office building.	<u>260,859</u>
Total long-term debt	337,485
Less current maturities	<u>11,397</u>
Long-term debt, net of current maturities	<u>\$326,088</u>

POWESHIEK COUNTY MENTAL HEALTH CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 – LONG-TERM DEBT (CONTINUED)

The USDA Rural Development loan covenants require an amount equal to one year's payments in the amount of \$16,188 be set aside from the Center's general fund. As a result \$16,188 has been allocated from the unrestricted net assets (deficit) of the Center to temporarily restricted net assets on the statement of financial position at June 30, 2011.

Following is a schedule of long-term debt payable in future years ending June 30:

2012	\$11,397
2013	11,971
2014	12,573
2015	13,205
2016	13,869
Thereafter	<u>274,470</u>
Total	<u>\$337,485</u>

NOTE 5 – TAX STATUS

The Poweshiek County Mental Health Center was formed and operates as a tax-exempt corporation and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law.

Tax years that remain subject to examination by the Internal Revenue Service include 2008, 2009 and 2010.

NOTE 6 – NET ASSETS

Unrestricted net assets are net assets not subject to donor-imposed restrictions. Temporarily restricted net assets are net assets set aside for specific purposes. SEE NOTE 4.

NOTE 7 – LOSS DUE TO MISAPPROPRIATION OF ASSETS

During the year ended June 30, 2011 the Center reported a loss due to the embezzlement of funds by an employee who was part of the financial record keeping of the Center. The employee has since been terminated and a police report and insurance claim have been filed. The amount of insurance recovery, if any, is not determinable and has not been included in the accompanying financial statements. Included in the statement of activities for the year ended June 30, 2011 is a loss of \$17,910 related to the embezzlement.

POWESHIEK COUNTY MENTAL HEALTH CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8 – RETIREMENT PLAN

The Center maintains a 403(b) retirement plan as authorized by the Center's by-laws. The plan is available to all employees who have completed one year of service. Under the terms of the plan, the Center contributes an amount equal to 9% of the annual salary for each employee participating in the plan. Amounts credited to individual participants are 100% vested immediately. The accumulated monies are paid upon a participant's retirement or termination. For the year ended June 30, 2011 the board of directors voted to reduce the amount the Center contributes to the plan to 5% from July – December 2010 and 1% from January – June 2011.

For the year ended June 30, 2011, the Center's required contributions to the plan were \$46,862. Actual contributions to the plan were \$0 and are shown as a current liability in the statement of financial position.

NOTE 9 – LEASES

The Center leases on a month to month basis, at a rate of \$583 per month, the bottom floor of the Pearl Street Apartments which is used for the Clubhouse. Included in clubhouse expenses on the statement of activities is \$6,867 of rent expense for the year ended June 30, 2011.

NOTE 10 – CONTINGENCIES

Recorded in the statement of financial position at June 30, 2011 are unpaid payroll taxes in the amount of \$132,958. The liability stems from a former employee (SEE NOTE 7) failing to make the required payroll tax deposits. The Center has hired an outside organization to represent and mediate the matter with the Internal Revenue Service and state taxing authorities to resolve this matter. Significant penalties and interest could be assessed for the late payment of taxes and late filing of required payroll reports. The amount of penalties and interest are subject to negotiation and as such a reasonable estimate cannot be made. Fees charged by the outside organization for representation and mediation were \$3,500 and paid subsequent to June 30, 2011. They have not been accrued in the financial statements dated June 30, 2011. The Internal Revenue Service has filed a lien on property owned by the Center in the amount of \$109,390.

POWESHIEK COUNTY MENTAL HEALTH CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11 – FUNCTIONAL EXPENSES

The Center provides mental health services including outpatient mental health care and preventive services, education and consultation to those in its catchment area. Expenses related to providing these services are as follows:

Program services	\$1,009,843
General and administrative	<u>397,440</u>
Total expenses	<u>\$1,407,283</u>

NOTE 12 – GOING CONCERN

As shown in the accompanying financial statements, the Center has a deficit of net assets of \$51,293, which includes expenses over revenues of \$278,182 for the year ended June 30, 2011. The Center lost the services of a physician which led to a decrease in contract service revenue and patient fees. In addition, Grinnell College has substantially decreased its support from the previous year. The Center also became aware of a significant payroll tax liability due to a former employee failing to remit payroll tax deposits for the year (SEE NOTE 7 and 10). These factors have created an uncertainty about the Center's ability to continue as a going concern. Management has taken steps to reduce operating costs, which includes eliminating the use of an outside billing service company and instead utilizing current employees of the Center. The ability of the Center to continue as a going concern is dependent on a continued reduction of operating costs, an increase in patient service revenue and increased public support. The financial statements do not include any adjustments that might be necessary if the Center is unable to continue as a going concern.